

# **RESULTS REVIEW**

**USAID HUNGARY**

**1998-1999**

**APRIL 16, 1999**

## **Please Note:**

The attached FY 2001 Results Review and Resource Request ("R4") was assembled and analyzed by the country or USAID operating unit identified on this cover page.

The R4 is a "pre-decisional" USAID document and does not reflect results stemming from formal USAID review(s) of this document.

Related document information can be obtained from:

USAID Development Experience Clearinghouse  
1611 N. Kent Street, Suite 200  
Arlington, VA 22209-2111  
Telephone: 703/351-4006 Ext. 106  
Fax: 703/351-4039  
Email: [docorder@dec.cdie.org](mailto:docorder@dec.cdie.org)  
Internet: <http://www.dec.org>

*Released on or after Oct. 1, 2001*

## MEMORANDUM

Date: April 16, 1999

From: Patricia J. Lerner, Regional Director  
RSC/ENI

To: John Tennant, Deputy Assistant Administrator  
ENI Bureau

Subject: FY 1998-99 R2 for USAID Hungary – Unfinished Business

This memorandum sets forth the major items of unfinished business that will remain when the USAID Program in Hungary ends. These items fall into two broad categories – those that USAID should continue to work on through post-presence vehicles and those that should be left to other U.S. Government organizations or other donors.

In two cases (NGO support and pension reform), the nature of the unfinished business argues for a continuation of USAID-funded assistance. In both cases, not continuing assistance carries the risk of failing to achieve major components of strategic objectives. In addition, USAID has a comparative advantage because programs and people are already on the ground and operational.

Continued Support for NGOs – Recognizing that SO impact has not been achieved, USAID launched Targeted Assistance to NGOs (TANGO) in October 1998 to continue the process of strengthening civil society by supporting NGOs. The activity has gotten off to a good start. However, because time is not sufficient to achieve the goals of the activity by the end of FY 1999 and delays in the startup of the proposed CEE Trust for Civil Society, USAID Hungary requested and USAID Washington approved an extension of the activity for one year to September 20, 2000.

Continuing Assistance in Pension Reform - Hungary's pension reform program was adopted in 1997. The reform program utilizes a model that rests on three pillars – mandatory contributions to a government held and managed social security fund; optional diversion of a portion of the mandatory contribution to privately managed pension funds; and voluntary contributions to privately managed pension funds. In 1998, approximately 1.3 million people opted to shift a portion of their mandatory contributions to private funds. USAID Hungary initiated a program of assistance to the agency responsible for supervising private pension funds that has been very effective and beneficial. USAID-funded advisors have helped the agency to develop and install computer systems required to monitor private pension funds and to develop an array of policies and procedures. However, the job of institutional capacity building can not be completed within the few months remaining before the end of the program. Without further capacity building, the regulatory agency cannot monitor the operation of the private pension funds and the status of individual accounts to ensure that funds are received, accounted for and protected from undue risk.

The importance of an effective supervisory agency is evident. Ordinary citizens are entrusting a portion of their future pensions to new and untried private pension funds on the assumption that the government, through the supervision agency, will protect their investment. The failure of even one private fund will have enormous negative repercussions on the whole pension reform process. The model adopted by Hungary was advocated by USAID not only in Hungary but also throughout the CEE and NIS. The other countries will be watching closely to see how the experiment proceeds. In an unprecedented gesture, underscoring the importance of the assistance, the GOH has offered to contribute \$260,000 over two years toward the cost of continuing USAID assistance.

Strengthening Independent Regulatory Agencies – USAID has helped to develop a number of regulatory agencies – a banking and capital markets supervision agency, an insurance supervision agency, an energy regulatory agency and the private pension fund agency. With the exception of the last, all are technically competent in fulfilling their roles. However, many regulatory officials still do not fully understand their role goes beyond assuring that rules and regulations are complied with in a legalistic sense and that the ultimate purpose of their work is to guard the interests of ordinary citizens. As a result the agencies tend to be reactive rather than interactive, looking for and correcting problems rather than actively seeking ways to identify and avoid future problems. They defer to, rather than challenge, higher political authority on behalf of their clients. This is a difficult transition to make for many officials who come from a Communist background of command and control and protecting the interests of the state rather than individual citizens. It is a transition the regulatory agencies must make if they are to effectively play their role in both the economic and democratic transition. We plan to investigate the problem further in order to more clearly define the issue and identify approaches to assisting the regulatory in the future.

Health Reform - Male life expectancy in Hungary is eight years less than in neighboring Austria due largely to Hungary's essentially unreformed, state-run health insurance and health provider systems. Successive governments have accepted the high cost of health care because the public outcry against major health reform might have jeopardized other critical reforms. In this environment, USAID assistance has been focussed primarily at the technical level in recognition of the fact that the primary constraint on health reform is political will. As a result, a good deal of the technical knowledge and the models necessary to carry out reforms have been transferred to Hungary and are available indigenously. The recently elected government is showing signs that it is prepared to undertake serious systemic reform. The task before it is monumental and will require comprehensive structural, social and technical changes, along with years of large budgetary outlays. Over the last few months we have adopted the approach of responding to government requests for assistance through the U.S. Department of Health and Human Services (DHHS) 632(b) IAA as a means of building linkages between Hungarian health system stakeholders and the DHHS. This should place DHHS in a position to continue supporting the reform effort after the USAID program closes if it so desires.

Integrating the Roma in the New Hungary – The continued marginalization of the country's Roma population could be a serious barrier to Hungary's further integration into Western European society and into the economy and other structures of the European Union. By and large, the Roma have not reaped the benefits of the transition to a free market economy and a democratic society because they remain outside the mainstream of Hungarian life and institutions. Past indigenous efforts to address the issue have resulted in the development of a parallel set of institutions and organizations created to meet Roma needs, but which now act to keep them outside the mainstream of Hungarian life. USAID has tried to address some of the barriers facing the Roma within the scope of broader activities. Young journalists have received training, NGOs have been strengthened in order to advocate for Roma needs. USAID's effort will continue after the closing of the Mission through the post-presence mechanism of TANGO, which supports activities to promote Roma entrepreneurship. Much more needs to be done to address this difficult problem.

Monitoring Progress and Providing Support - USAID has helped to create an array of new and restructured institutions implementing a variety of new programs and legislation in Hungary. Most are doing quite well but all must be viewed as fledgling institutions that will need support from time to time as well as the encouragement and infusion of new ideas. Also, the transition to a free market economy and a democratic society is not complete. Groups of citizens and regions are not yet benefiting fully from the transition. Progress to date indicates that the transition should continue to broaden and deepen without an active, on-the-ground USAID presence. USAID has an interest in monitoring the continued growth and development of Hungary's market economy and democracy and the specific areas that received USAID assistance in order to be able to assist before crises develop. This interest is relevant to all the graduated and graduating countries in the region. Monitoring progress by tracking a limited set of key indicators, maintaining contact through appropriate regional events, and providing support through highly targeted, very limited visits by experts are appropriate mechanisms for remaining engaged with the graduated countries.

## MEMORANDUM

**Date:** April 16, 1999

**From:** Patricia J. Lerner, Regional Director  
RSC/ENI

**To:** John Tennant, Deputy Assistant Administrator  
ENI Bureau

**Subject:** Submission of R2 for 1998-1999

I am pleased to transmit herewith USAID Hungary's final R2 covering FY 1998 and FY 1999. The R2 consists of the following sections:

### Cover Memorandum

Part I	- Overview and Factors Affecting Performance
Part II	- Results Review by Strategic Objective
Part III	- Cross Cutting and Special Initiatives
Annex 1	- Post Presence Activities
Annex 2	- FY 1998/1999 Obligation Table
Table 1	- Operating Expenses Table
Table 2	- Trust Fund and Voluntary Separation Table

Annex 1 is submitted in accordance with the instructions that require a special information annex from closeout missions.

Annex 2 is a special information annex that provides obligation information on USAID Hungary's portfolio of activities, in lieu of the standard budget table, which is not applicable.

We have not submitted workforce tables because all levels will be zero on September 30, 1999. We have not submitted the Controller Operations Table because all Controller costs are reported in the RSC Regional Financial Management Office submission.

cc: Patricia Matheson, Director, ENI/PCS  
Paula Feeney, Director, ENI/ECA  
Brian Wickland, Hungary Desk Officer, ENI/ECA/NT  
CDIE

## **PART I – OVERVIEW AND FACTORS AFFECTING PERFORMANCE**

USAID's goal has been to assist Hungary in its transformation to a democratic society and a market-based, private sector led economy, integrated into key international systems and Western institutions. When the Mission closes at the end of FY 1999, USAID will have achieved this goal. The transition was largely completed in 1997, and 1998 was a year in which it was tested. National and local elections were held. The Russian economic crisis, which had repercussions throughout Central Europe, also affected Hungary. The Government of Hungary (GOH) re-nationalized the ailing Postabank and restructured it at an estimated cost of \$1 billion. The various indicators used to judge Hungary's performance were mixed with some indicators showing positive change and others declining. While gains in 1998 were not as great as those in 1997, the declines were not great either.

Hungary's democracy is strong and irreversible. It has a representative political system based on free and fair elections. National elections were held in April-May 1998, and local elections took place in the fall of 1998. The result was the peaceful transfer of power from incumbent to opposition parties at the national level. Indeed, all of the basic structures needed for a well functioning democracy are now in place. Political rights, civil liberties and the rule of law are among the most advanced in the region. The basic policy, legislative and regulatory frameworks necessary for the smooth functioning of a private sector led market economy are in place and functioning well. However, while the capacity of the NGO sector has been strengthened, the impact has not been uniform throughout the country and civil society remains fragile.

The cornerstone of Hungary's transition, privatization, is complete with over 80% of the economy privately owned. This has been an important factor in improving Hungary's productive efficiency and international competitiveness. GDP growth reached 5.1% in 1998, second only to Ireland in Europe. About 80% of Hungary's external trade is with OECD countries. Total exports and imports continued to expand, though not at the same rate as 1997. Accordingly, Hungary's external current account balance rose from the 1997 low of 2.2% of GDP to 3.4%. Unemployment showed a significant drop to 9.5% as compared to 10.4% in 1997. Inflation was around 14.8%, but rates for recent months indicate that the annual inflation rate for 1999 should drop below 10%. The continued improvement in Hungary's foreign debt, budget deficits and inflation bodes well for the integration into the European Union by its target date of 2002. The basic conditions for accession to the European Union contained in the Maastricht Treaty are: (1) budget deficit of 3% or less of GDP; and (2) less than 6% inflation.

All of USAID Hungary's strategic objectives are on track for meeting acceptable results programmed for 1999. USAID made good progress in completing activities and finding institutional homes for the many successful programs, models, and lessons learned to ensure sustainability. Concurrently, new issues and problems were uncovered and progress in completing some activities was less than expected. These problems often relate to the fact that neither the economic nor the democratic transition is as broad or deep as it will become in time. Geographic regions and groups of people, such as the

Roma, still await the benefits of the transition. None of the problems are serious enough to jeopardize program success or require major changes in the Mission's closeout plan with two exceptions. USAID Washington recently approved continuation of support of non-governmental organizations (NGOs) through TANGO. The Mission will also requests post-presence support for pension reform. In addition, a Post-Presence Strategy is needed to underpin an appropriate set of mechanisms for continued monitoring of indicators and the provision of highly targeted, limited assistance to encourage the broadening and deepening of the transition and assure the sustainability of USAID-supported programs and institutions.

Hungarian fiscal policies and fiscal management practices are recognized as sound, prudent and supportive of a stable, balanced economic environment favorable to increased private sector investments and sustainable high economic growth. They were tested in 1998 by the Postabank restructuring. There was also the inevitable pressure to limit budget cuts for social programs in an election year. Nonetheless, while indicators of government spending did not achieve 1997 levels, they remained well within reason. Investor confidence in the government's fiscal management was demonstrated by its successful sale of \$47 million worth of 10-year fixed income bonds, the first time a country in Central and Eastern Europe has floated such a bond issue and sold them at reasonable Libor premium. The issue was oversubscribed.

Pension and health reform remain areas of concern. Some 1.3 million people took advantage of Hungary's pioneering pension system by moving a portion of their mandatory contributions to new private pension funds. This makes the need to strengthen the State Private Pension Fund Supervision Agency all the more urgent. USAID's contractor is making a good start on capacity building, but continued support will be needed after closeout. The new government recognized the need to press forward with health reform. If it has the political will to proceed with reform, as appears to be the case, it will require continued assistance. The Mission is making every effort to identify other sources of support for this area.

Hungary has a competitive, market responsive private financial sector that is capable of financing a level of private sector investment consistent with steady economic expansion. In 1998, the Russian economic crisis tested the sector. International investors withdrew support from not only Russia but also other emerging markets in the region because they did not differentiate one from another. As a result, Hungary's fundamentally sound stock market suffered severe losses which, in turn, inhibited companies from going public. By the end of the calendar year, Hungary had withstood the repercussions of the Russian financial crisis, producing solid gains in overall economic growth.

The financial sector's main regulator was also tested during the year. The Bank and Capital Markets Supervision Agency dealt effectively with three troubled banks. When it finally was able to act in the politically sensitive case of the Postabank, it managed the situation professionally. The end result was restoration of confidence in Hungary's financial system and recognition of the need to let the bank supervisors do their job without political interference. During 1998, the USAID-supported credit rating firm,



FOCUS, began operations. The only area that has not met expectations is the development of a housing finance market. The demand for mortgage financing is growing more slowly than expected, but the institutional, legal and regulatory infrastructure is in place to support growth when it occurs.

Hungary's dynamic small and medium enterprise (SME) sector is increasingly confident and informed about doing business. In a recent survey almost half of the businesses indicated that they were planning new investments or increased employment. Obstacles still confront SMEs, but the new government has publicly recognized the sector's importance to future economic growth and has promised to launch a comprehensive program to support the sector. The government has already announced the establishment of a one-stop shop for permits and licenses for new SMEs. USAID-supported programs to improve business practices and systems, and to provide SMEs with market and technology information, will be sustainable because ownership has been transferred to local organizations that are receiving growing financial support from end-users and the GOH. Although less success has been achieved in improving access to commercial credit and the legal and regulatory framework, the more supportive attitude of the government and the availability of fora for policy dialogue should result in positive changes without further external intervention.

USAID's efforts contributed to the achievement of Hungary's transition to a democracy through support for the free flow of information and the development of a civil society. USAID has also contributed to citizen ownership of the democratic process by strengthening local governments, making them more responsive to their constituents, and encouraging them to work with other local governments, NGOs and citizens. The programs, which strengthened the administrative and financial management capacity of local governments, and inter-local government collaboration, have been institutionalized and the lessons learned effectively disseminated. Highly successful community based-programs built around support for laid-off workers and local economic development demonstrated the value of all elements of the community working together while saving and creating jobs. Efforts to assure minority (Roma) participation and sustainability of these programs are continuing. While civil society is strong at the national level and in larger urban areas and the better developed regions of the country, more needs to be done in the less developed parts of the country. The RSC/ENI will continue implementing TANGO, the NGO development project, for one year beyond the closing of the Mission in order to ensure that the desired impact has been achieved.

The Embassy has revised the Mission Performance Plan (MPP) to take into account the impending closeout of the USAID program.

## **PART II - RESULTS REVIEW BY STRATEGIC OBJECTIVE**

### **SO 1.2 – Increase Soundness of Fiscal Policy and Fiscal Management Practices**

#### **Summary**

Strategic Objective (SO) 1.2 supports the Hungarian Government's development of the capacity to manage its finances in a manner that promotes economic stability and supports private sector development. The main means for achieving this SO are: improving budget and program management; improving revenue generation; and rationalizing the government's role in the economy. Hungary's continued impressive progress in fiscal reform is evident in its macro-economic indicators as well as SO specific indicators. GDP growth in 1998 was 5.1%, the second highest in all of Europe. Recent monthly inflation rates if maintained for the balance of 1999 will result in an annual rate of under 10%. Foreign debt has been reduced to an acceptable norm of approximately 16% to 18% of GDP. Government expenditures, while slightly higher than the 1997 level, are down to the SO target level of 46.4% of GDP. A number of SO indicators have already been reached or come close to the levels required for success by closeout in 1999. Analysis of the situation underlying the indicators indicates that the SO will largely be achieved by program closeout, but continued assistance in pension reform and health reform is required. The Mission is proposing a continuation of technical assistance in pension reform, post-presence, to assure that the supervision of private pension funds is adequate.

#### **Key Results**

More Efficient Budget and Program Management – With the establishment of a Treasury Department within the Ministry of Finance in 1996 and its outstanding performance in 1997, USAID essentially completed its work under this Intermediate Result (IR). The U.S. Treasury advisor, who will remain until May 1999, continued to assist the Ministry of Finance with its budget planning in 1998. Central government expenditures as a percent of GDP increased slightly from 45% to 46.4%. The consolidated central government balance as a percent of GDP was -4.7%, slightly more than 1% in the wrong direction. The GOH did not do as well as it had in 1997 in holding the line against overspending because of Postabank restructuring costs and because government spending was less restrained due to election year pressures to avoid hurting voters. The slippage in this area had no significant impact on major indicators such as inflation and GDP growth. Since it was caused by one-time factors, the Mission believes the government will be back on track in 1999.

Improved Revenue Generation – In 1998, the Hungarian tax authority, APEH, took several key steps forward with assistance from the USAID-financed Treasury Advisor. Responsibility for collecting social security contributions was transferred to APEH from the agency administering social security. A separate Criminal Investigation Unit within the APEH was also set up. Only 179,102 audits were performed against a target of 275,000 and a 1997 performance of 255,000. This was due to a change in senior

management, the impact of elections, and several reorganizations including the shift of social security tax collection responsibilities over to APEH.

Rationalization of Government Role – Hungary’s pioneering pension law took effect in January 1998, achieving the 1998 SO target (“system in place”). In response, 1.3 million Hungarians moved a portion of their mandatory social security contribution into private funds. USAID began to address the need for effective supervision and regulation of private pension funds, a capacity lacking in the Hungarian pension system. Coopers and Lybrand/European Management Center worked with the State Private Pension Fund Supervision Agency to strengthen its information technology department, improve internal policies and procedures and develop its capacity to conduct off-site monitoring and on-site inspections of the private funds.

Progress has been made in health reform by introducing health professionals to a variety of methods for financing health and restructuring the health system to make better use of resources. There now exists a cadre of technically trained health professionals who are aware of different methodologies for managing health care. The number of hospital beds in the health system has been reduced by 9,300, exceeding the 1998 SO target of 8,000 fewer beds. The percentage of health reimbursements for in-patient versus outpatient care declined slightly from 1997 to 1998 reaching 46.2%, not quite at the 1998 target of 45%.

In 1998 USAID continued its role as provider of technical information and training in health. The Hungarian-American Coalition completed a series of case mapping seminars that introduced health care providers to the concept of tracking every action associated with a patient to determine the real cost of services. USAID also served as a source of objective information by funding studies that provided policy makers with useful data and concepts to inform the on-going policy debate. Among a number of analytic studies conducted in 1998, two were especially useful. One focussed on the feasibility of a regional health insurance provider system. The other examined under-the-table payments to health care providers, which is prevalent in the still basically state-run health system. The U.S. Department of Health and Human Services (DHHS) will continue to support the reform process by working with Hungarian counterparts on technology assessment and organizing a Visioning Study Tour for VIPs in the U.S. in April-May 1999. The tour will bring key decision-makers to the U.S. where they can be introduced to new health management systems for possible adaptation to the Hungarian situation.

### **Performance and Prospects**

The impressive progress of fiscal reforms continued in 1998, contributing to sustained economic growth and improved price stability. Consolidated central budget expenditures were down to 46.4% of GDP, from 48.9% in 1997, although total revenue as a percent of GDP declined from 44.1% in 1997 to 41.9% in 1998. These numbers indicate the declining role of the government in the economy as well as its improved control over government finances. At the same time, SO indicators present a mixed picture. Most of those focussing on government fiscal policy and management fell back. Because 1998 was an election year, government spending was not as restrained as in previous years.

The \$1 billion spent restructuring the Postabank to prepare it for re-privatization also affected government spending indicators negatively. The fact that spending was held in check reasonably well verifies the fundamental institutional strength of the government's fiscal management system. No further assistance in either revenue management or budget and fiscal management and policy will be required after 1999.

The indicators dealing with health sector reform (reported in last year's R2 but not carried forward this year) were on or ahead of target, yet significant systemic changes in the government's socialized health system have not taken place. The cost of health care to individuals and companies remains high in relationship to the quality and availability of service. The cost to the government in terms of budget subsidies also remains large. USAID has done much to provide Hungary with the tools, techniques and knowledge to undertake reform and has helped implement critical technical changes and restructuring. The newly elected government is showing signs of taking steps in the right direction. Legislation is being prepared to reorganize health insurance by creating competing regional health insurance providers. The government also announced plans to privatize government-owned equipment and facilities used by general practitioners to promote the private practice of medicine. Should the government continue its nascent efforts to reform the health sector, technical assistance will have to be secured from the EU or other sources; or through appropriate USAID post-presence mechanisms.

Hungary has created a three-pillar pension system resting on mandatory contributions divided between the government Social Security Fund and private pension funds, plus voluntary contributions to private funds. While more remains to be done by the GOH, the Mission believes the GOH will be able to proceed on its own as the issues are generally political rather than technical. The one area of concern is the ability of government to regulate private pension funds. The State Private Pension Fund Supervision Agency has only just begun to develop the standards and practices and the professional capacity needed to enforce them. The negative impact of a group of citizens losing their investment in a private pension fund would be disastrous, not only in Hungary, but also wherever USAID has advocated this model. The GOH has recognized the seriousness of the situation by requesting USAID to continue providing technical assistance and pledging \$130,000 a year for two years as a counterpart contribution. The Mission is requesting USAID Washington to continue assistance for two additional years in the context of the new post-presence Financial Sustainability Project managed by ENI/PER.

### **Other Donors Programs**

The World Bank provided funding for the Tax Administration Modernization Project which was implemented from 1996 to 1998 and was complementary to USAID-funded activities. The Bank also worked with USAID and its main implementor, the DHHS, in organizing a health reform visioning conference in October 1998, as well as with policy issues relating to pension reform legislation. The OECD established a tax training center in Budapest. The European Union's PHARE Program provided technical assistance to the newly created Pension Guarantee Fund that guarantees investments in private pension funds.

**Contractors and Grantees****Terminal Date**

Hungarian-American Coalition	3/99
DHHS	6/99
U.S. Treasury	6/99
FSVC	12/98
CIPE	6/99
The Higher Education Foundation	6/99

**Performance Indicator Data Tables**

Strategic Objective: Increased Soundness of Fiscal Policies and Fiscal Management Practices Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Increased Soundness of Fiscal Policies and Fiscal Management Practices			
Indicator: Consolidated central government fiscal balance			
Unit of Measure: %	Year	Planned	Actual
Source: GOH, Ministry of Finance, Central Statistics Office	1996	-3.9	-3.3
Indicator Description: Excludes NBH balance sheet support and excludes use by central government of privatization revenues; % referred to GDP	1997	-3.0	-3.6
	1998 (T)	-3.5	-4.7
Comments: GDP denominator (HUF 8,541 billion) is a preliminary estimate for 1997.	1999 (T)	-3.5	

Strategic Objective: Increased Soundness of Fiscal Policies and Fiscal Management Practices Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Improved tax administration			
Indicator: Tax audits			
Unit of Measure: thousands	Year	Planned	Actual
Source: GOH tax office (APEH)	1996	225	246
Indicator Description: Audits	1997	250	255
	1987 (T)	275	179
Comments:	1999 (T)	300	

Strategic Objective: Increased Soundness of Fiscal Policies and Fiscal Management Practices Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Increased Soundness of Fiscal Policies and Fiscal Management Practices			
Indicator: Consolidated central government expenditure			
Unit of Measure: %	Year	Planned	Actual
Source: GOH, Ministry of Finance, Central Statistics Office	1996	49.0	47.2
Indicator Description: Consolidated central government expenditure related to GDP in percent	1997	48.0	45.0
	1998 (T)	46.5	46.4
Comments:	1999 (T)	45.0	

Strategic Objective: Increased Soundness of Fiscal Policies and Fiscal Management Practices Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Needs and performance based budgeting implemented			
Indicator: Financing of health care services			
Unit of Measure: %	Year	Planned	Actual
Source: Health Insurance Fund	1996	48	48.7
Indicator Description: % Health reimbursements paid for inpatient services versus outpatient and preventive services	1997	47	47.5
	1998 (T)	45	46.2
Comments: Shows restructuring of health care system from high cost acute care to preventive, ambulatory, home health care and nursing homes.	1999 (T)	42	

## **SO 1.3 Improved Performance of Small and Medium Enterprises**

### **Summary**

Strategic Objective 1.3 seeks to create an environment in which small and medium enterprises (SMEs) can flourish as a means to achieving the broader goal of fostering a competitive, market-oriented economy. The intermediate results for achieving this SO are: increasing access to commercial banking services; improving access to market and technology information; improving business systems and practices; and providing SMEs with a more rational tax structure. Despite the continued existence of obstacles, indicator targets have been achieved and the SME sector's cautiously optimistic view of its prospects for future growth is reflected in positive future investment and employment plans. The newly elected government has a favorable attitude toward SMEs. In light of this, the Mission has concluded that there is enough indigenous institutional competence and a sufficiently supportive political environment to assure the continued long term growth of the SME sector without further USAID assistance.

### **Key Results**

Increased Access to Commercial Bank Services - Only 39 % of SMEs have ever received a commercial bank loan. While this number is still low, it does meet the modest SO target. Unfortunately, the Government hinders SME use of commercial banks because it is still subsidizing loans. Two micro-credit programs will be started shortly which rely on market interest rates. Hopefully, these will demonstrate to the GOH that subsidized interest rates are not necessary for SME growth. ACDI/VOCA has promoted the use of warehouse receipts as collateral in an effort to give some SMEs access to alternative sources of capital. The number of agro-industrial small businesses using warehouse receipts rose from 150 in 1996 to 530 in 1998.

Improved Access to Market and Technology Information - In 1998, ACDI/VOCA succeeded in institutionalizing an important agribusiness database. The GOH Ministry of Agriculture and Rural Development will maintain its AGLink Module. The Hungarian Agricultural Information Association will maintain two other agricultural information projects. These agribusiness databases were used by 5,639 users in 1998, far exceeding the target of 3,300. A tri-country business database in northeastern Hungary, involving Slovakia and the Ukraine, helped 20 to 30 percent of the 418 registered businesses that used the database to find partners in 1998. In addition to managing this partner search, the Zemplen Regional Business Enterprise Development Center, with CIPE assistance, continues to promote development in this economically depressed region. As a result, the region was recently declared a Free Enterprise Zone by the GOH, which will permit the offering of investment incentives and attract foreign investors.

Improved Business Systems and Practices – Two of USAID's major activities in this area were also institutionalized in 1998. Eight Total Quality Management (TQM) centers established with assistance from the USAID-funded State University of New York-Albany (SUNY), are active throughout the country and TQM is now an integral part of

business education in Hungary. The lead center at Technical University of Budapest (TUB) already generates 60% of its revenue from consulting work while the other centers focus primarily on education. SUNY also assisted TUB to develop a part-time MBA program, with a substantial TQM component, for engineers, which has over 400 students enrolled. The Management Development Center (MDC) of the Budapest University of Economic Sciences (BUES), with assistance from Indiana University, continues to provide management training to both larger domestic and international firms as well as SMEs in 1998. The MDC is now attracting foreign students to its MBA program and has been asked to provide services elsewhere in Central Europe.

ACDI/VOCA has provided assistance to the agribusiness sector by helping small groups with training in such areas as production methods, product development, TQM, and marketing. It has also introduced these groups to an organizational concept called “integrations” which vertically link the small enterprises involved in a production chain. Fifty-nine of these “integrations” linking over 5,500 SMEs have been established. A 1999 survey indicates that participating SMEs have experienced a median 15% growth in sales and a 75% success rate in obtaining bank loans. A local successor organization, AltAgra, has been working with ACDI/VOCA and will continue promoting and assisting the formation of these groups, not only in Hungary but also elsewhere in Central Europe.

The sustained improvement of business systems and practices will depend, in large part, on the ability of the small business community to meet its own needs for training, information, self-regulation, and advocacy. To support this, CIPE, the Urban Institute, and the Eastern Europe Real Property Foundation are helping business associations gain capacity and sustainability. Efforts to bring these associations together in a single organization to advocate for the SME community have not been successful. A “Club of Association Executives” was formed in 1998, providing a basis for collaboration and, hopefully, the eventual emergence of a single representative “voice” in its dealings with the government.

More Rational Tax Structure - While taxes have been lowered for businesses, employer contributions to health care have been increased. The net impact is not clear at this time. A further lowering of the tax burden does not seem likely in the near future. However, the GOH recently announced plans to lower VAT on some products and services such as housing construction materials, which should help SMEs. Simplification of tax administration for SMEs does appear to be likely. USAID, through CIPE, has supported studies outlining specific recommendations and the Ministry of Finance has asked CIPE’s local partner to assist it with implementation.

### **Performance and Prospects**

The SME sector’s contribution to GDP and exports has remained reasonably constant through 1997, the last year for which we have data. The SME sector’s contribution to GDP was 59.9% in 1997 as compared to 49.9% in 1996, while its contribution to exports was 15.1% in 1997 as compared to 14.1% in 1996. Productivity data, recently published by the government for the first time, demonstrate that SME productivity is increasing.



To compensate for the lack of timely official statistics, USAID, through a CIPE subgrantee, has commissioned a series of surveys. These provide a better profile of the SME sector and document SME participants' view of the situation. The survey results were instrumental in convincing the government of the importance of SMEs for Hungary's long-term growth. A recently completed survey of SMEs found that they rated their future prospects as positive (8.5 on a scale of -100 to + 100). Medium size firms alone were even more positive at 23.1. Almost half (46.5 %) of all businesses surveyed indicated that they planned new capital investments or increases in employment as compared to 40.7 % a year earlier.

The SME sector was recognized in 1998 by the newly elected government as the key to increasing future growth of the economy. In late March 1999, the GOH began announcing elements of a comprehensive program for SME development, including creation of a one-stop shop in the Chamber of Commerce for SME start-ups to obtain licenses and permits, a concept promoted by CIPE with USAID funding. The government is expected to entertain legislative changes to also make membership in the Chamber voluntary rather than mandatory, a change promoted by CIPE and strongly supported by USAID. The full program will be unveiled in the near future.

In addition to the government's positive attitude, substantial progress has been made in institutionalizing a more open policy dialogue between government officials and SME business leaders through CIPE supported roundtables and "spin-off" round tables organized by other institutions.

While many of the problems and constraints on SME growth identified in USAID's original analysis remain, good progress has been made in overcoming them. Considerable success has been achieved in improving SME access to market and technology information and improving business systems and practices. More limited success has been achieved in obtaining better access to commercial bank credit for SMEs and creating a more favorable legal and regulatory framework. Sources of equity capital required for the growth of the SME sector also appear to be in short supply. However, with the GOH convinced of the importance of the SME sector to Hungary's long-term economic growth and the existence of mechanisms for open dialogue, the Mission is confident that these remaining constraints to SME development will be removed in time.

### **Other Donor Programs**

The British Know How Fund has been working extensively with the Government of Hungary on SME policy issues in close collaboration with USAID.

**Contractors and Grantees****Terminal Date**

ESOPs Assistance	4/99
Eastern Europe Real Property Foundation	6/99
The Urban Institute	6/99
CIPE	6/99
ACDI/VOCA	6/99
Indiana University	6/99

**Performance Indicator Data Tables**

Strategic Objective: Improved Operations of Small and Medium Sized Enterprises Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Improved Operations of Small and Medium Sized Enterprises			
Indicator: exports to Sales for SMEs			
Unit of Measure: Percentage	Year	Planned	Actual
Source: Hungarian tax authority	1995 (B)	9	8.2
Indicator Description: Mean exports for 1995 were divided by sales	1996	11	14.1
	1997	13	15.1
Comments: Baseline: Reported 9/96 on yr. '95; actual	1998 (T)	15	
performance:8.2	1999 (T)	15	

Strategic Objective: Improved Operations of Small and Medium Sized Enterprises Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Improved Operations of Small and Medium Sized Enterprises			
Indicator: Reported SME Contribution to Industry Sector of GDP Based on Tax Returns			
Unit of Measure: Percentage of total sector contribution	Year	Planned	Actual
Source: Hungarian Tax Office	1995 (B)		49.3
Indicator: SME Contribution to Industry Sector of GDP	1996	50.3	49.7
based on data submitted to tax office	1997	50.3	59.8
Comments: 1995 is baseline	1998 (T)	53.3	
	1999 (T)	58.5	

Strategic Objective: Improved Operations of Small and Medium Sized Enterprises Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Improved Presentation of SME Financial Information to Banks			
Indicator: Targeted firms which have received loans			
Unit of Measure: Percentage	Year	Planned	Actual
Source: Lyles 1996 Survey/Partners	1996 (B)		-27
Indicator Description: Proportion of surveyed SME firms which replied that they had received bank loans	1997	29	32
	1998 (T)	31	39
Comments: Baseline is 1996	1999 (T)	33	

Strategic Objective: Improved Operations of Small and Medium Sized Enterprises Approved: 8/32/96 Country/ Organization: USAID Hungary			
Result Name: Increased Access to Database Facilities			
Indicator: Users of Agriculture Information System			
Unit of Measure: Number of Users	Year	Planned	Actual
Source: Reports from Implementing Partners	1996 (B)	0	0
Indicator Description: Users of agricultural databases in	1997	570	1,200
micro regions assisted by implementing partners	1998 (T)	2,150	5,639
Comments: 1996 is baseline	1999 (T)	3,300	

## **SO 1.4 – A more competitive and market responsive private financial sector**

### **Summary**

Strategic Objective 1.4 supports Hungarian efforts to create a competitive, market-responsive financial sector, capable of meeting the private sector's capital investment needs, thereby ensuring steady economic expansion. The main means for achieving this SO are improving the regulation and supervision of the financial sector and improving the operational efficiency of the financial sector. Hungary now has a modern, private financial sector, with a vibrant and liquid stock exchange, and privately owned competitive banks and insurance companies. Of the five indicators reported on last year, two achieved 1999 closeout targets in 1997 and two others came very close. In 1998 three of the four indicators, which have been retained, did not repeat 1997's outstanding performance but met 1998 targets. Analysis of the situation underlying the indicators demonstrates that the Mission's optimism regarding achievement of the SO by closeout is fully justified.

### **Key Results**

Improve Regulation and Supervision – The Barents Group ended assistance to the Bank and Capital Market Supervision (BCMS) Agency in February, 1999, leaving a unit capable of conducting both off-site monitoring and professional on-site examinations of financial institutions. More than 50% of all on-site examinations are now carried out by BCMS rather than contracted to auditors. In 1998, the two sides of BCMS collaborated in their first joint on-site examination of a bank's banking and brokerage operations. BCMS demonstrated its professional abilities when it took over three troubled banks in the summer of 1998. Its monitoring put it in a position to anticipate problems and permitted it to act in a timely fashion. More recently, the BCMS became involved in the cleanup of the Postabank, preparing it for eventual sale to a strategic investor.

Improved Operational Efficiency - In the area of bank privatization, the process was largely completed in 1997. At that time, the 1999 target of ten banks privatized was achieved. The assistance of the USAID-financed U.S. Treasury advisor was instrumental in this process. In 1998 the mismanaged Postabank was re-nationalized to permit the GOH to clean it up. Unfortunately, the manner in which the Postabank was originally privatized in 1996 left its management unaccountable to anyone due in part to obscure ownership. Because of the bank management's significant political influence, remedial action was delayed until after the 1998 national elections, which increased the cost of the cleanup. Legislation requires it to be re-privatized by 2002. The Treasury Advisor participated in this activity before completing his assignment in early 1999.

With the assistance of USAID contractor First Washington Associates, the credit rating agency named FOCUS, began operation in the summer of 1998. Thomson Bank Watch, an international credit rating firm and nineteen Hungarian banks and financial institutions own the organization. FOCUS is already issuing credit ratings and, with assistance from

its owners, should be able to stand on its own after the completion of First Washington Associates assistance in May 1999.

Financial Volunteers Service Corps experts continued to transfer knowledge and to influence policy making in the financial markets area through the completion of their program at the end of 1998. Two volunteers lectured at the International Association of Insurance Supervisors conference and an expert from the U.S. Office of the Comptroller held a five-day seminar on on-site and off-site bank supervision techniques. FSVC also brought two top management officials from the Boston Stock Exchange to Hungary to work with officials of the Budapest Stock Exchange (BSE).

Efforts to develop housing finance as a component to Hungary's financial markets have not been as successful as other activities under this SO. Although housing subsidies decreased from 20% of GDP to just 4% between 1993 and 1999, the total value of outstanding mortgages remains very low. In addition to the reduction in subsidies, USAID's contractor, the Urban Institute, can point to some solid accomplishments in developing the infrastructure for housing finance. In addition to strengthening the foreclosure law and improving credit risk analysis capabilities the previous year, in 1998 the government adopted recommendations aimed at increasing the targeting of subsidies. These were proposed by the USAID-supported Subsidies Subcommittee of the interministerial Housing Policy Committee. The Loan Recovery Working Group, which includes representatives of all concerned organizations in both the public and private sector, continued to work on improvement of the legal and regulatory framework for recovering delinquent housing loans. A major housing finance conference, held in November 1998, brought together leaders in the financial sector and government to discuss prospects for a vigorous market-based housing finance system. As a result of the dialogue engendered by the attention focussed on the need for market-based interest rates, the largest home finance lender, the OTP Bank, adjusted its interest rates. The Urban Institute will complete its work in June 1999, having laid the groundwork for the future growth of housing finance.

### **Performance and Prospects**

Overall financial market performance remained strong despite various circumstances which had a negative impact. Financial sector assets as a percent of GDP fell from the 1997 level of 118 % to 110 %, as a result of the sharp decline in the value of shares on the BSE. Although stock market fundamentals remained sound with listed companies showing solid earnings growth and the addition of 11 new companies to the Exchange's listing, foreign investors did not differentiate between Russia and Hungary, causing the BSE index to fall 21 %. The addition of the 11 new firms raised the total number listed from 49 to 60, significantly short of the target figure of 80, reflecting the reluctance of companies to attempt an initial public offering in the midst of a serious market downturn.

Banks recorded net operating losses in 1998 due to large investments by foreign partners in new branches and new services. However, total deposits and loans were up. The history of BCMS's delayed involvement in Postabank demonstrated both a remaining

weakness of Hungary's supervision system as well as the strength of the organization. BCMS management initially refused to get involved in that highly politicized situation involving alleged corruption and mismanagement at the Postabank, until the change of political leadership opened the door. Once BCMS became involved, it moved in swiftly to take control and restore confidence. The high cost of the clean up of the Postabank situation is likely to encourage Hungary's political leadership to strengthen BCSM's independence, as it is apparent that the damage would have been more limited if BCSM had acted earlier. One immediate result was the replacement of the top management of BCMS. The number of banks privatized remained at 10 as this activity was essentially completed in 1997. The Government re-nationalized Postabank in order to restructure it but legislation requires that it be sold no later than 2002.

Unforeseen factors have limited the success of USAID-supported efforts in housing finance. First and foremost, demand for housing finance remains low as a result of the GOH's initial heavily subsidized privatization of the country's existing housing stock. Secondly, the relatively newly privatized banking sector has many other lucrative areas in which to invest money, making the banks reluctant to reduce interest rates and lower down payment requirements. Nonetheless, USAID efforts have created the necessary infrastructure to support an expansion in housing finance when market conditions change. No further effort in this area is required in USAID's opinion.

The Mission believes that SO closeout targets set as indicators of success in achieving the SO will be met by the end of FY1999. These targets were essentially achieved in 1997. 1998 turned out to be a year in which the sector generally, and the institutions supported by USAID specifically, were tested and demonstrated their strengths.

### **Other Donor Programs**

No other donors have been active in the financial markets area.

<b>Major Contractors and Grantees</b>	<b>Termination Date</b>
The Barents Group	2/99
Financial Services Volunteers Service (FSVC)	12/98
U.S. Treasury	4/99
The Urban Institute	6/99

## Performance Indicator Data Tables

Strategic Objective: A More Competitive and Market Responsive Private Financial Sector Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: A More Competitive and Market Responsive Private Financial Sector			
Indicator: Financial Sector Assets			
Unit of Measure: %	Year	Planned	Actual
Source: National Bank of Hungary; Monthly Report; Budapest Stock Exchange	1996	100	112
Indicator Description: The higher the financial sector "assets", that is total bank assets plus insurance premiums plus the Stock Exchange's capitalization, the better. Assets reported as a % of GDP	1997	105	118
	1998	110	110
Comments: Decline due to Russian financial crisis that caused the BSE to decline despite fundamental strength of Hungarian economy.	1999 (T)	120	

Strategic Objective: A More Competitive and Market Responsive Private Financial Sector Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: A More Competitive and Market Responsive Private Financial Sector			
Indicator: Firms listed on Budapest Stock Exchange			
Unit of Measure: number	Year	Planned	Actual
Source: Budapest Stock Exchange	1996	46	45
Indicator Description: If more companies are listed on the BSE this means that more companies are meeting strict financial reporting requirements and take advantage of relatively cheap new capital increase possibilities.	1997	60	49
	1998	80	60
Comments:	1999 (T)	100	

Strategic Objective: A More Competitive and Market Responsive Private Financial Sector Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Improved regulation and supervision			
Indicator: Number of comprehensive bank examinations			
Unit of Measure: Annual number	Year	Planned	Actual
Source: Bank and Capital Market Supervision	1996	15	16
Indicator Description: Growth in the number of comprehensive on-site bank examinations correlates with maturity of the supervisory agency and increased sophistication and security of the banking sector.	1997	18	17
	1998	20	20
Comments:	1999 (T)	22	

Strategic Objective: A More Competitive and Market Responsive Private Financial Sector Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Reduced public sector ownership			
Indicator: Banks restructured and privatized			
Unit of Measure: number/cumulative	Year	Planned	Actual
Source: Ministry of Finance, GOH Privatization Agency	1996	6	6
Indicator Description: The number of Hungarian state-owned banks restructured and privatized.	1997	8	10
	1998	9	10
Comments:	1999 (T)	10	



## **SO 2.1 – Better Informed Citizens Increase Their Participation in Decision Making at the Local Level**

### **Summary**

Strategic Objective 2.1 focuses on Hungary's efforts to transform itself into a democratic, pluralist society by promoting: the free flow of information; the development of sustainable, professionally managed non-governmental organizations (NGOs); collaboration between local government bodies and the NGO community; and more effective, responsive local governments. Hungary is irreversibly a democratic society. Free and fair national and local elections were held for the third time in 1998 with power changing hands peacefully at the national level. Although the indicators used by USAID to track progress support the conclusion that the SO is being achieved, there are also weaknesses within some of the component parts of the SO which need attention beyond the close of the program to assure full success and consolidation of gains made to date.

### **Key Results**

Increased Flow of Useful Information - In 1998, private national TV networks far outpaced state-owned networks both in terms of viewership and advertising revenue. At the same time, a number of unprofitable newspapers and journals were closed because they lost the financial support of the Postabank (see SO 1.4). USAID's contribution to the development of an independent media has taken the form of training for journalists through ProMedia and its Hungarian counterpart, The Center for Independent Journalism (CIJ). In 1998, the final year of this activity, 200 journalists were trained, bringing the total number to more than 750. Then CIJ has run a number of successful investigative journalism training programs, and will be conducting a unique investigative reporting workshop in May 1999. During 1998, the CIJ also ran an innovative Roma Mainstream Media Internship Program and provided public relations training to Roma NGOs. The CIJ will continue training journalists after the close of the USAID program. It already obtains 65 % of its funds from other sources.

More Active and Responsive Civil Society – The Democracy Network program, which worked towards building a more active and responsive civil society, ended its activities September 30, 1998. The program had a number of successes including initiatives that have become fully sustainable. The USAID-funded telecottage program was institutionalized by the GOH when it agreed to provide \$1 million to continue the program and establish new telecottages.

Unfortunately, in economically depressed areas of the country, the resources to support and sustain NGOs are lacking. Budapest-based NGOs receive two thirds of the sector's resources. In response, the Mission initiated the Targeted Assistance for NGOs (TANGO) activity. In October 1998, through a competitive process, two indigenous NGOs, the Foundation for the Development of Democratic Rights (FDDR) and the Autonomia Foundation, were selected to receive a cooperative agreement of \$1.5 million. They make sub-grants to NGOs in economically disadvantaged areas for activities in the

areas of “niche” social service provision, rural economic development, Roma education/entrepreneurship, and advocacy. Sub-grant recipients receive assistance from consultants who enter into a mentoring relationship with the NGOs. They will focus their assistance on sustainability issues such as fund raising, community involvement, public contracting, and building relations with the business community. By providing relatively large grants and highly targeted technical assistance to carefully selected NGOs, TANGO is expected to produce a group of strong NGOs in less developed regions which can serve as leaders, mentors and role models for other NGOs. In January 1999, 680 sub-grant proposals were received in the first grant round. In March 1999, sub-grants totaling \$600,000 were awarded to 39 NGOs from among the 680 proposers.

Improved Local Collaboration – USAID promoted local level collaboration by supporting the implementation of two activities that would rally interest and support from a broad range of community representatives and serve as a model for cooperation. The first activity was the Rapid Response Early Intervention program and the second was the Rapid Response Local Economic Development (LED) initiative. The first focussed on helping people laid off from their jobs because of restructuring and the second on the development of community-based economic development plans. Training-of-trainer workshops produced facilitators, who in turn facilitated workshops to train participants. By 1998, the early intervention model was fully institutionalized with 200 trained facilitators from County Labor Centers, funding from the central government and supportive changes in the legal and regulatory framework. As a result of the series of local economic development workshops held in the initial 14 demonstration communities, they began to implement development plans that resulted in 784 new jobs, 511 individuals enrolled in training, 82 jobs saved and 73 new entrepreneurs. The 14 communities also raised more than 650 million Forints (\$2.8 million) from other sources, more than 10 times the seed money provided by the U.S. Department of Labor (DOL) IAA with USAID. In 1998, a second round of 17 communities received training and a much smaller amount of seed money, while six more have sought the training and will use their own funds. One problem has emerged from the experience with implementation of the local economic development activity. The needs of minorities such as the Roma are not being taken into account. The DOL has begun discussions on how to integrate minority-related issues and institutions into the County Labor Center network and the local economic development process.

The GOH has set aside funding to continue the program. Unfortunately, the recent reorganization of the Ministry of Labor has left the status of County Labor Centers, which are the key participants in the two programs, unclear. Although GOH funding has been provided for the next two years, the government has not yet identified a permanent home for these highly successful programs within the government structure. USAID and DOL are working to determine how best to institutionalize these programs.

Local Government More Effective and Responsive to its Citizens – USAID successfully completed its efforts to improve the general management capacity of local governments by providing training in public administration, program budgeting and financial management. The programs implemented by ICMA and the Urban Institute resulted in

more than 20 demonstration projects and involved 40 municipalities in program budgeting and modern municipal financial management. An association of Municipal Finance Officers is well established. A landfill demonstration project is nearing successful completion and will serve as a model for cooperation among localities. The number of municipalities involved in inter-local cooperation far exceeds the indicator target of 90. The government has passed a law on municipal associations to institutionalize and provide incentives for inter-local cooperation. USAID-funded activities have been distilled into a set of skill kits that have been distributed to more than 1000 municipalities. The kits provide practical, step by step guidance on inter-local cooperation, community mobilization, media and community relations, citizens advisory groups and landfill operations.

### **Performance and Prospects**

With the exception of the need to continue support for NGOs (discussed below), progress toward achieving the SO by Mission closeout is on track. In addition to a small but consistent growth in general citizen satisfaction with their local governments (up from 49 to 51 %), nationwide surveys conducted in February 1999 show that citizens increasingly feel they have the ability to “take ownership” of their lives on the local level. A proxy measurement for this is the combination of how citizens rate their opportunities to participate in decision making and what impact they perceive their input to have. The index for each has risen slightly over the past year and both now hover around the “neutral” mark of 50 on a scale of 1 to 100. While these ratings indicate that local governments need to increase their responsiveness to their constituents, they have come a long way. More importantly, the vehicles and systems for local participation are in place and the tools and knowledge that local governments need to be more responsive, are available indigenously.

In the media area, the key SO indicator, “Citizen awareness of local government issues and activities” rose from 35% in 1997 to 39% in 1998. The Postabank situation illustrated the conflict between the principles of a free market economy and the needs of a democratic society. The issue extends beyond the unprofitable newspapers supported by the Postabank, as media outlets at the local level (as opposed to regional and national) are not financially viable without state support or ownership. However, the legal/political environment allows a free media and there are a sufficient number of independent media outlets to assure an adequate flow of information. As the economy grows, people and businesses will be able to support a wider range of media outlets.

While the capacity of the NGO sector and the legislative environment has been strengthened as a result of USAID’s activities, the impact has not been uniform throughout the country. NGOs in key areas are still extremely fragile. Differences between the various geographic regions in Hungary are very pronounced, measured by dramatically divergent investment patterns, unemployment rates and per capita GDP. This presents a major challenge because in those regions where needs are the greatest, resources for NGOs are scarcest. Budapest-based NGOs receive two-thirds of available resources. The TANGO cooperative agreement, which seeks to address the problems in

this sector by providing targeted grants and technical assistance was scheduled to end September 30, 1999. The TANGO grantees have made one round of grants utilizing about half of the funds obligated for this purpose. There is not sufficient time to make a second round of grants that will be consistent with the objectives of the program. USAID Washington recently approved the Mission's request to continue this activity to September 30, 2000. By that time, a strong core group of NGOs capable of acting as mentors and role models will exist.

USAID-supported activities aimed at improving cooperation among local governments and NGOs and improving the capabilities of local government have been very successful. Models such as Rapid Response Local Economic Development are attracting interest from other countries in the region. The remaining issues revolve around the institutionalization of these models. The Mission is working on alternatives to ensure sustainability of the models and lessons learned.

### **Other Donor Programs**

USAID has signed a Memorandum of Understanding with the World Bank to formalize collaboration of the Sub-National Development Program (SNDP). The Canadian International Development Agency (CIDA), and the British Know How Fund also participate. The USAID contractor, Urban Institute, has been assisting the SNDP to benefit from the nine years of USAID experience in local government development. The Soros Foundation and The Open Society, funded by Soros, are supporting NGO activities that focus on Roma education and legal rights, and anti-corruption. They also support the development of local government information systems.

<b>Contractors and Grantees</b>	<b>Termination Date</b>
FDDR & Autonomia (TANGO)	9/00
USIS/ProMedia	6/99
USIS/Small Grants	6/99
U.S. Department of Labor	6/99
Urban Institute	6/99
Regional Environmental Center Small Grants	5/99
AIHA Health Partnerships	12/98
ICMA	9/98
Democracy Networks	9/98

## Performance Indicator Data Tables

Strategic Objective: Better Informed Citizens Increase Their Participation in Decision-Making Processes Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Strategic Objective			
Indicator: Citizen Satisfaction with Local Government			
Unit of Measure: % Average of Survey Responses	Year	Planned	Actual
Source: Political Sciences Institute Foundation	1996		38
Indicator Description: Percentage average of survey responses related to citizen satisfaction with local government according to following scale: 0=total dissatisfaction; 100=total satisfaction	1997	40	49
	1998 (T)	45	51
Comments: 1995 Baseline 37	1999 (T)	50	

Strategic Objective: Better Informed Citizens Increase Their Participation in Decision-Making Processes Approved: 8/23/96 Country/ Organization: USAID- Hungary			
Result Name: Strategic Objective			
Indicator: Citizen Rating of Opportunities to Participate in Local Decisions			
Unit of Measure: % Average of Survey Responses	Year	Planned	Actual
Source: Political Sciences Institute Foundation	1996		41
Indicator Description: Percentage average of survey responses related to opportunities for citizens to participate in local decisions	1997	44	43 (city survey) 49 (nation-wide sample)
	1998 (T)	45	50
Comments: 1995 Baseline 39	1999 (T)	50	

Strategic Objective: Better Informed Citizens Increase Their Participation in Decision-Making Processes Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Strategic Objective			
Indicator: Citizen Rating of Impact from Their Input			
Unit of Measure: % Average of Survey Responses	Year	Planned	Actual
Source: Political Sciences Institute Foundation	1996		35
Indicator Description: Percentage average of survey responses related to citizen rating of impact from their input to local government	1997	38	38 (city survey) 43 (nation-wide sample)
	1998 (T)	40	50
Comments: 1995 Baseline 31	1999 (T)		

Strategic Objective: Better Informed Citizens Increase Their Participation in Decision-Making Processes Approved: 8/23/96 Country/ Organization: USAID Hungary			
Result Name: Increased Flow of Useful Information			
Indicator: Citizen Awareness of Local Government Issues and Activities			
Unit of Measure: % Average of Survey Responses	Year	Planned	Actual
Source: Political Sciences Institute Foundation	1996		24
Indicator Description: Percentage average of survey responses related to citizen awareness of government issues and activities according to following scale: 100%=highly informed; 67%=quite informed; 33%=slightly informed; 0%=not informed	1997	35	35 (city survey) 45 (nationwide sample)
	1998 (T)	40	39
Comments: 1996 Baseline 24.3%	1999 (T)	50	

### **PART III - CROSS CUTTING AND SPECIAL INITIATIVES**

Under this special objective there are two activities outside USAID Hungary's four core Strategic Objectives and two activities that support the Mission's entire program. In addition, there are six research activities under the U.S.-Israel Cooperative Development Research (CDR) Program.

**Ron Brown Scholarships:** This activity is administered by USIS. It provides support for Hungarian graduate students and professionals to study at leading U.S. institutions. This fellowship combines advanced academic work with professional development activities such as internships, workshops, and alumni networking. Five fellows were selected to begin their training in FY 1998 and will not complete their study programs until FY 2000, making this a post-presence activity. However, USIS manages this program under a 632(a) transfer without USAID Hungary involvement. Accordingly, continuation of this activity through FY 2000 will not require USAID presence in Hungary beyond September 30, 1999 and will not be affected by the closeout of USAID Hungary's assistance program.

**Global Environmental Facility (GEF):** USAID and the governments of Hungary, Slovakia, and Romania have pledged to cooperate in reducing toxic compound emissions in selected cross-boundary rivers. This regional project has established a cross-boundary monitoring and communication network, which facilitates regional pollution warnings and emergency mitigation plans. It also identifies specific pollution danger zones and major industrial polluters, and provides assistance, training and equipment to address environmental issues. Responsibility for GEF activity monitoring rests with ENI/EEUD. In-country activity monitoring will continue through the Regional Environment Advisor located in RSC/ENI, Budapest.

**Public Education:** Implemented by The Urban Institute, the Public Education activity ensures that the American and Hungarian people are aware of important development issues through the implementation of issue-based strategies and information dissemination. In addition to a series of conferences and media events, the activity is also producing a USAID Hungary website, activity documentation, and impact assessments. The activity will end in July 1999.

**Audit Evaluation and Project Support (AEPS):** The AEPS account provides support to USAID Hungary SOs baseline data collection for SO indicators, special evaluations, etc. AEPS funds are being used for activity and SO closeout support in 1999 in cases where specific project funds are not available for this purpose.

**U.S.-Israel Cooperative Development Research (CDR) Program:** The CDR program seeks to strengthen the ability of cooperating country scientists to do innovative research. Emphasis is on helping scientists learn about and use Israeli technology in collaboration with Israeli researchers. The program focuses on problems that are of special importance in cooperating countries. Currently, there are five active research projects involving Hungarian scientists and institutions. One

additional project is approved and awaiting funding. These activities will not be concluded until after USAID Hungary closeout in September 1999. No mission personnel, funds, or other resources have been involved in management or oversight of CDR grants awarded since this arrangement began in 1992. Projects are selected by AID/G/EG, and funds are transferred by inter-agency agreement to the US Embassy in Tel Aviv. The Office of the Science Attaché in the US Embassy in Tel Aviv provides oversight in principle.



## **ANNEX 1 - POST PRESENCE ACTIVITIES**

The following identifies the activities that will continue beyond the closure of USAID Hungary in September 1999. All have been approved.

**Global Environmental Facility:** See Cross Cutting and Special Initiatives section.

**Hungarian-American Enterprise Fund:** Establishment of the Hungarian-American Enterprise Fund was mandated by Congress to promote investment in Hungarian small and medium size private businesses. The Fund has not yet submitted a closeout plan. It is expected to begin to liquidate its holdings and return funds to the USG in the year 2005. USAID/ENI/EMI will monitor Enterprise Fund activities until its entire portfolio is liquidated.

**Loan Portfolio Guarantee:** Channeled through OTP Bank, the USAID guarantee covers 50% of the Bank's risk from the default of loans to SMEs eligible under the guarantee's terms. The program was canceled in January 1998 due to lack of interest on the part of commercial banks. However, three existing guarantees will be in place until August 2001. The guarantees are backed by funds set aside by G/EGAD/CI. That office will monitor the three loans guaranteed under this program.

**Ron Brown Scholarships:** See Cross Cutting and Special Initiatives.

**U.S.-Israel Cooperative Development Research (CDR) Program:** See Section Cross Cutting and Special Initiatives.

**Technical Assistance to NGOs (TANGO) –** See SO 2.1

## ANNEX 2 - OBLIGATION DATA FOR USAID HUNGARY ACTIVITIES

NUMBER	PROJECT	PARTNER	FY 1998 (actual)	FY 1998 (carryover)
<b>SO 1.2 - INCREASED SOUNDNESS OF FISCAL POLICIES AND FISCAL MANAGEMENT PRACTICES</b>				
180-0027	.01 Tax Administration	Treas. Dept.	360,000	100,000
180-0027	.01 Pension Fund Supervision	Treas. Dept.	475,000	0
180-0023	.03 Pension Reform	CIPE	0	25,000
180-0038	Case Mapping	HAC		
180-0038	* Protocol Guidelines	Dept. Health & Human Res.	100,000	125,000
180-0038	* Hospital Accreditation	Joint Commission on Accred.	0	0
180-0038	* Outpatient Care	3M HIS	0	0
180-0038	* Rational Drug Use	RPM Global	0	0
180-0014	* Policy Reform and Technical Assistance	IQC	516,369	161,631
180-0021	.01 Educational Reform	USIA		
<b>1.2 Total</b>			<b>1,451,369</b>	<b>411,631</b>
<b>SO 1.3 - IMPROVED OPERATIONS OF SMALL AND MEDIUM SIZED ENTERPRISES</b>				
180-0023	.03 Private Enterprise Development	CIPE	250,000	0
180-0024	TA to Agr. Sector (Regional Access to Info. and Credit)	VOCA	580,000	0
180-0034	Housing Sector Assistance	EE Real Property	50,000	
<b>1.3 Total</b>			<b>880,000</b>	<b>0</b>
<b>SO 1.4 - A MORE COMPETITIVE AND MARKET RESPONSIVE PRIVATE FINANCIAL SECTOR</b>				
180-0014	* State Banking Supervision	Barents	0	175,000
180-0027	.01 TA/Financial Services (Short-term TA)	Treas. Dept.	215,000	0
180-0034	* Housing Sector Assistance	Urban Institute	200,000	0
<b>1.4 Total</b>			<b>415,000</b>	<b>175,000</b>
<b>SO 2.1 - BETTER INFORMED CITIZENS INCREASE THEIR PARTICIPATION IN DECISION MAKING AT THE LOCAL LEVEL</b>				
180-0004	.06 NGO Grant Support	Regional Environ. Center		0
180-0021	.13 Demo. Commission Small Grants (NGO Support)	USIA	100,000	0
180-0022	.02 USIS Media Training	USIS	50,000	0
180-0032	.09 TANGO	FDDR	336	1,579,664
180-0033	* Labor Activities (Rapid Response)	U.S. Dept. of Labor	0	0
180-0034	* Housing Sector Assistance	Urban Institute	350,000	0
180-0034	* Democracy Advocate	Urban Institute	50,000	0
180-0034	* USPSC Contract	na	0	75,000
<b>2.1 Total</b>			<b>550,336</b>	<b>1,654,664</b>
<b>4.1 CROSS CUTTING AND SPECIAL INITIATIVES</b>				
180-0002	US Eastern Hungary Partnership Initiative	DoC		300,000
180-0002	Human Resource Development	Confederation of Higher Education		10,000
180-0020	.05 Rule of Law	Partners for Democratic Change	97,000	0
180-0045	.01 Participant Training (Technical Training in U.S.)	PIET	300,000	0
180-0045	.06 Ron Brown Scholarship	USIA	100,000	0
180-0249	Public Education	Urban Inst	0	100,000
180-0249	Lessons Learned	KPMG	0	100,000
180-0249	.01 Project Support/Evaluation	na	63,582	465,873
180-XXXX	Perfromance Fund	na		22,000
180-XXXX	Parking Fines	na	0	545
<b>4.1 Total</b>			<b>560,582</b>	<b>998,418</b>
<b>GRAND TOTAL</b>			<b>3,857,287</b>	<b>3,239,713</b>

Operating Expenses

Org. Title: Org. No: OC		Overseas Mission Budgets														
		FY 1999 Estimate			FY 2000 Target			FY 2000 Request			FY 2001 Target			FY 2001 Request		
		Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total
11.1	Personnel compensation, full-time permanent	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.1	Base Pay & pymt. for annual leave balances - FNDH	0			0			0			0			0		
	Subtotal OC 11.1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
11.3	Personnel comp. - other than full-time permanent	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.3	Base Pay & pymt. for annual leave balances - FNDH	0			0			0			0			0		
	Subtotal OC 11.3	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
11.5	Other personnel compensation	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.5	USDH	0			0			0			0			0		
11.5	FNDH	0			0			0			0			0		
	Subtotal OC 11.5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
11.8	Special personal services payments	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
11.8	USPSC Salaries	26.4		26.4			0			0			0			0
11.8	FN PSC Salaries	33.0		33.0			0			0			0			0
11.8	IPA/Details-In/PASAs/RSSAs Salaries			0			0			0			0			0
	Subtotal OC 11.8	59.4	0	59.4	0	0	0	0	0	0	0	0	0	0	0	0
12.1	Personnel benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	USDH benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	Educational Allowances			0			0			0			0			0
12.1	Cost of Living Allowances			0			0			0			0			0
12.1	Home Service Transfer Allowances			0			0			0			0			0
12.1	Quarters Allowances			0			0			0			0			0
12.1	Other Misc. USDH Benefits			0			0			0			0			0
12.1	FNDH Benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	** Payments to FSN Voluntary Separation Fund - FNDH			0			0			0			0			0
12.1	Other FNDH Benefits			0			0			0			0			0
12.1	US PSC Benefits	4.0		4.0			0			0			0			0
12.1	FN PSC Benefits	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
12.1	** Payments to the FSN Voluntary Separation Fund - FN PSC			0			0			0			0			0
12.1	Other FN PSC Benefits	27.0		27.0			0			0			0			0
12.1	IPA/Detail-In/PASA/RSSA Benefits			0			0			0			0			0
	Subtotal OC 12.1	31	0	31	0	0	0	0	0	0	0	0	0	0	0	0
13.0	Benefits for former personnel	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
13.0	FNDH	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
13.0	Severance Payments for FNDH			0			0			0			0			0
13.0	Other Benefits for Former Personnel - FNDH			0			0			0			0			0
13.0	FN PSCs	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
13.0	Severance Payments for FN PSCs			0			0			0			0			0
13.0	Other Benefits for Former Personnel - FN PSCs			0			0			0			0			0
	Subtotal OC 13.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
21.0	Travel and transportation of persons	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
21.0	Training Travel			0			0			0			0			0



Operating Expenses

Org. Title: <u>USAID Hungary</u> Org. No: <u>22185</u> OC		Overseas Mission Budgets														
		FY 1999 Estimate			FY 2000 Target			FY 2000 Request			FY 2001 Target			FY 2001 Request		
		Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total
24.0	Printing and Reproduction	10.0		10.0			0			0			0			0
	Subtotal OC 24.0	10.0	0	10.0	0	0	0	0	0	0	0	0	0	0	0	0
25.1	Advisory and assistance services	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.1	Studies, Analyses, & Evaluations			0			0			0			0			0
25.1	Management & Professional Support Services			0			0			0			0			0
25.1	Engineering & Technical Services			0			0			0			0			0
	Subtotal OC 25.1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25.2	Other services	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.2	Office Security Guards			0			0			0			0			0
25.2	Residential Security Guard Services			0			0			0			0			0
25.2	Official Residential Expenses			0			0			0			0			0
25.2	Representation Allowances	1.0		1.0			0			0			0			0
25.2	Non-Federal Audits			0			0			0			0			0
25.2	Grievances/Investigations			0			0			0			0			0
25.2	Insurance and Vehicle Registration Fees	0.1		0.1			0			0			0			0
25.2	Vehicle Rental			0			0			0			0			0
25.2	Manpower Contracts			0			0			0			0			0
25.2	Records Declassification & Other Records Services			0			0			0			0			0
25.2	Recruiting activities			0			0			0			0			0
25.2	Penalty Interest Payments			0			0			0			0			0
25.2	Other Miscellaneous Services	50.0		50.0			0			0			0			0
25.2	Staff training contracts	4.5		4.5			0			0			0			0
25.2	ADP related contracts			0			0			0			0			0
	Subtotal OC 25.2	55.6	0	55.6	0	0	0	0	0	0	0	0	0	0	0	0
25.3	Purchase of goods and services from Government accounts	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.3	ICASS	30.0		30.0			0			0			0			0
25.3	All Other Services from Other Gov't. accounts			0			0			0			0			0
	Subtotal OC 25.3	30.0	0	30.0	0	0	0	0	0	0	0	0	0	0	0	0
25.4	Operation and maintenance of facilities	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.4	Office building Maintenance			0			0			0			0			0
25.4	Residential Building Maintenance			0			0			0			0			0
	Subtotal OC 25.4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25.7	Operation/maintenance of equipment & storage of goods	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
25.7	ADP and telephone operation and maintenance costs			0			0			0			0			0
25.7	Storage Services			0			0			0			0			0
25.7	Office Furniture/Equip. Repair and Maintenance	2.0		2.0			0			0			0			0
25.7	Vehicle Repair and Maintenance	2.0		2.0			0			0			0			0
25.7	Residential Furniture/Equip. Repair and Maintenance			0			0			0			0			0
	Subtotal OC 25.7	4.0	0	4.0	0	0	0	0	0	0	0	0	0	0	0	0
25.8	Subsistence & spt. of persons (by contract or Gov't.)			0			0			0			0			0

Operating Expenses

Org. Title: <u>USAID Hungary</u>		Overseas Mission Budgets														
Org. No: <u>22185</u>		FY 1999 Estimate			FY 2000 Target			FY 2000 Request			FY 2001 Target			FY 2001 Request		
OC		Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total	Dollars	TF	Total
	Subtotal OC 25.8	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
26.0	Supplies and materials	1.4		1.4			0			0			0			0
	Subtotal OC 26.0	1.4	0	1.4	0	0	0	0	0	0	0	0	0	0	0	0
31.0	Equipment	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
31.0	Purchase of Residential Furniture/Equip.			0			0			0			0			0
31.0	Purchase of Office Furniture/Equip.	0.5		0.5			0			0			0			0
31.0	Purchase of Vehicles			0			0			0			0			0
31.0	Purchase of Printing/Graphics Equipment			0			0			0			0			0
31.0	ADP Hardware purchases			0			0			0			0			0
31.0	ADP Software purchases			0			0			0			0			0
	Subtotal OC 31.0	0.5	0	0.5	0	0	0	0	0	0	0	0	0	0	0	0
32.0	Lands and structures	Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line			Do not enter data on this line		
32.0	Purchase of Land & Buildings (& bldg. construction)			0			0			0			0			0
32.0	Purchase of fixed equipment for buildings			0			0			0			0			0
32.0	Building Renovations/Alterations - Office			0			0			0			0			0
32.0	Building Renovations/Alterations - Residential			0			0			0			0			0
	Subtotal OC 32.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
42.0	Claims and indemnities			0			0			0			0			0
	Subtotal OC 42.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL BUDGET		450.0	0	450.0	0	0	0	0	0	0	0	0	0	0	0	0

**Additional Mandatory Information**

**Dollars Used for Local Currency Purchases**

361.7

**Exchange Rate Used in Computations**

234.98

\*\* If data is shown on either of these lines, you MUST submit the form showing deposits to and withdrawals from the FSN Voluntary Separation Fund.

On that form, OE funded deposits must equal:

0

0

0

0

0

TABLE 2

Organization: USAID/Hungary

Foreign National Voluntary Separation Account									
Action	FY 1999			FY 2000			FY 2001		
	OE	Program	Total	OE	Program	Total	OE	Program	Total
Deposits	0.0	3.2	3.2			0.0			0.0
Withdrawals	0.0	3.2	3.2			0.0			0.0

Local Currency Trust Funds - Regular			
	FY 1999	FY 2000	FY 2001
Balance Start of Year			
Obligations			
Deposits			
Balance End of Year	0.0	0.0	0.0

**Exchange Rate**

\_\_\_\_\_

Local Currency Trust Funds - Real Property			
	FY 1999	FY 2000	FY 2001
Balance Start of Year			
Obligations			
Deposits			
Balance End of Year	0.0	0.0	0.0

**Exchange Rate**

\_\_\_\_\_